HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Thunder Bay CMA

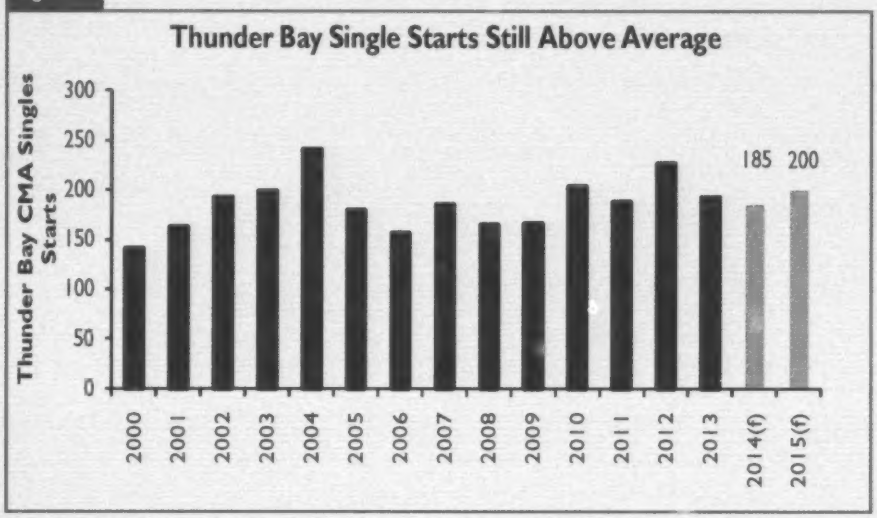
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights

- Seller's market conditions are entrenched in Thunder Bay despite sales expected to fall 1.3 per cent in 2014.
- Average resale prices will rise 6.5 per cent this year in Thunder Bay and a further 4.9 per cent next year.
- The tight resale market will keep single-detached housing starts above the 15 year average.

Figure 1



Source: CMHC (f) CMHC Forecast.

The forecasts included in this document are based on information available as of April 30, 2014.

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New Home Market: Starts To Top Twenty Year Average

Stable economic fundamentals and a tight resale market will continue to support housing starts in 2014 and 2015. While starts of apartments, rows and semi-detached units will fall back to more normal levels in 2014 and 2015, they still should surpass twenty year averages. Single-detached construction should dip below 2013 levels but remain above fifteen year averages on demand created by the continued tight resale market conditions.

Condominium construction should fall off steeply in 2014 and 2015 given the above-average construction in 2012 and 2013. Investors eyeing the Thunder Bay market were undoubtedly surprised at the reversal in the longer term trend of declining vacancy rates. It remains to be seen if the move towards higher vacancy rates will continue as condominium completions hit the Thunder Bay market.

Continued positive net migration benefits the rental market, as newcomers to the market often choose rental over homeownership in the short term. Small scale development of rental units generally in the form of four-plexes or six-plexes continues sporadically throughout the city and has helped to boost infill housing construction numbers which fits nicely with current provincial policy.

Despite a very weak start to 2014, relatively strong volumes of single-detached starts should take place in the next six months. This growth, however, will not be sufficient for 2014 levels to surpass the 2013 ones. Expect 185 units to start in 2014 and another 210 units next year, topping the twenty-year-average in both instances. Multiple unit starts will reach 70 units this year and 90 units in 2015. Both forecast totals will trail the recent peak of 153 multiple unit starts recorded in 2012 but both figures will surpass the 20-year average for multiple unit starts.

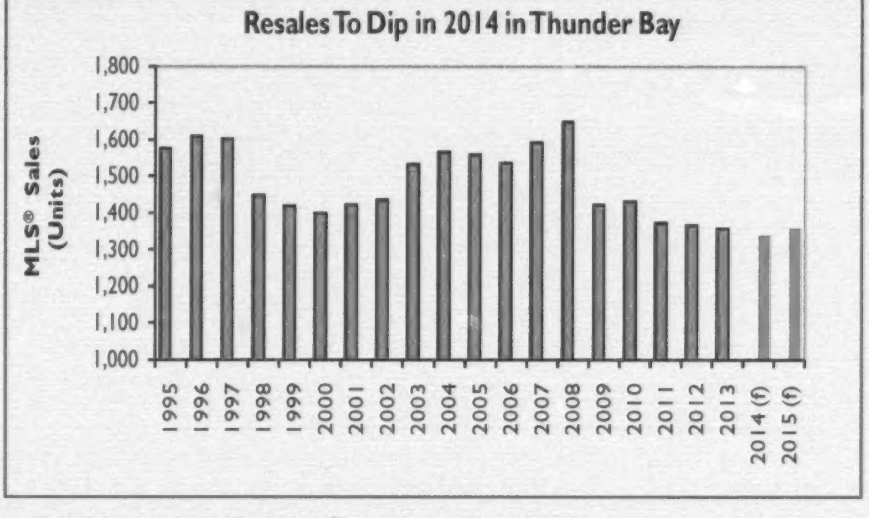
With an average of six unabsorbed units per month in the first quarter, completed and unoccupied units remain at the highest level since 2010, but well within the historic range of units unabsorbed in the market. With the well-known supply challenges facing the ownership market in Thunder Bay, anecdotal evidence indicates that interest in building speculatively is gaining some traction in a historically conservative market.

The average value of completed and occupied units in 2013 compared to 2012 was up 22 per cent, the highest year-over-year increase since at least 1989. Although absorbed prices are somewhat weaker in this first quarter of 2014 so far, average prices for newly completed and occupied units were estimated to be $432,000 in 2013. CMHC expects average prices to rise three per cent this year and another two per cent in 2015. Affordability issues and a distribution of new homes reflecting more modest units will moderate cause this tempering of new home valuations.

Resale Market: Demand to Fall in 2014 but Prices will be Firm

A record cold winter dampened home buying for a second consecutive first quarter. Although sales for this year's first three months are up 2.2 per cent year-over-year, this increase is off a base that represents the lowest level of first quarter sales since at least 1995. The recent trend towards weakening sales is largely due to the lack of product more than weakening demand.

Figure 2



(f) CMHC Forecast; Note: TBREB MLS® sales are for Districts 1 & 2 only.
Source: TBREB & CREA, CMHC.
MLS® is a registered trademark of the Canadian Real Estate Association.

Given the downtrend in demand, sales will fall 1.3 per cent in 2014 before recovering by nearly an equal amount in 2015. Expect brisk activity for the remainder of the spring and into the summer but also anticipate that the market will be challenged to maintain strength later in the third quarter and into the fourth quarter. Tepid employment growth and limited supply, especially in first time homebuyer price ranges, will temper demand.

Active listings began the year lower than they have ever been. The first quarter average monthly active listings count of 181 units, combined for Thunder Bay Real Estate Board Districts 1 and 2, was clearly the lowest of any quarter since 2005 when the isolation of these districts' active listings began. Little is on the horizon that will dramatically change the demand-supply imbalance present in Thunder Bay. Creating housing options that are attractive to empty nesters will be the challenge to developers, as will the need to free up single-family homes so desperately needed to bring the market more into balance.

Based on recent history, those listing their homes in 2014 and 2015 should be confident that their listing price, if set close to market average, will translate into a closing price that is very close to the list price. In 2013, the average sell-to-list-price ratio was 99.5 per cent, down slightly 99.9 per cent in 2012. Thus far in 2014, the average sell-to-list-price ratio has remained high at 98.8 per cent, only one tenth of one per cent behind first quarter averages in both 2012 and 2013. Once again, sell-to-list price ratios this high are consistent with sellers' market conditions.

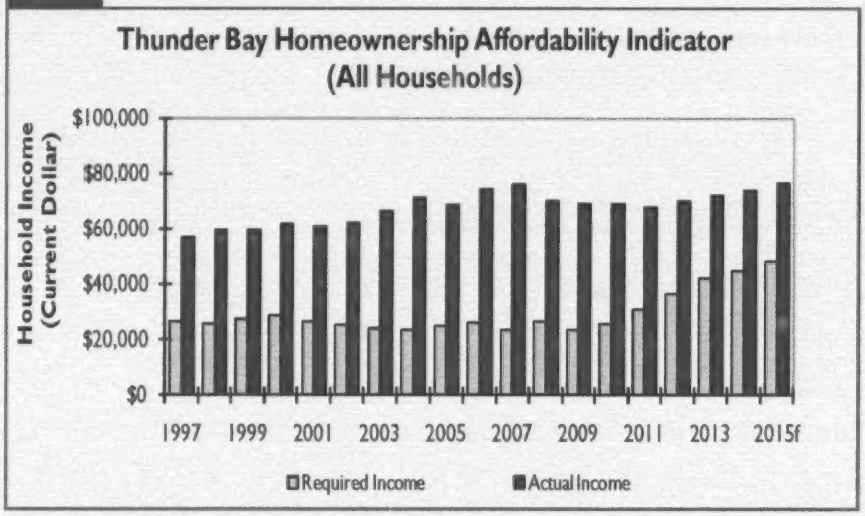
Additionally, average selling time has risen from forty days for the first three months of 2013 to forty-four days thus far in 2014. Looking at annual data, only two occasions in the last eight years in Thunder Bay (in 2005 and in 2011) has the selling time dipped below forty days. Selling times peaked in 2007 at 56 days. Look for average selling time to stay close to forty days in 2014 and 2015, as listings remain near historic lows.

Homeowners should prepare themselves for the possibility of a bidding war, if recent history continues to repeat itself in 2014 and 2015. In Q1 2014, 37 per cent of the 237 homes sold at or over the list price, essentially unchanged from last year's first quarter but well off the 43 per cent of units that sold at or over list in 2012. All indicators point to an existing home market in a seller's state. Continued tight supply caused prices to move strongly ahead 8.3 per cent in 2013.

Baby boomers born between 1946 and 1962 make up a large segment of Thunder Bay's population. With this population's increased longevity and improved income, the likelihood to stay in their principal home longer, forgoing any move to downsize, is increasing. As a result, listings in Districts 1 and 2 of the Thunder Bay Real Estate Board territory will continue to be tight.

New condominium projects under construction do have the potential to encourage more listings in the resale market. This should result in home prices increasing, as the prime spring and early summer selling season heats up. CMHC expects prices to rise 6.5 per cent this year and 4.9 per cent next year. Despite strong average price growth, brought on by the tight listings environment and employment stability, Thunder Bay will remain as one of the most affordable centres with over 100,000 in population in the province.

Figure 3



Sources: CMHC, Statistics Canada, CREA, f= CMHC Forecast. Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization

Economic Outlook: Thunder Bay Employment To Experience Modest Growth

After peaking in September 2013, employment growth has stalled with the last three months seeing year-over-year job losses in Thunder Bay CMA. Less than robust growth in commodity prices, due to weaker economic growth in the energy poor developing world, has been key to the timid pace of employment growth. The developed world should perform well in 2014 and given the weakness in the Canadian dollar, our manufacturing sector should have improved fortunes.

In large part due to a recovering US housing construction market, Northwestern Ontario building products (such as dimensional lumber, plywood and oriented strandboard) should continue to experience growth. Pulp will benefit from this climate, which will support Thunder Bay and other Northwestern Ontario producers. Employment in Thunder Bay will improve due to hiring employees at four or five mining operations in the Northwest in 2014 and 2015. After two per cent growth in 2013, CMHC expects Thunder Bay employment will continue to grow 0.5 per cent this year and 1.4 per cent in 2015.

For the first time in a few years, labour force growth outstripped employment growth, usually a sign of improved confidence in the job market. This allowed the unemployment rate to move up to six per cent in 2013, up from the 5.4 per cent unemployment rate in 2012. Expect the unemployment rate to fall to 5.9 per cent this year and 5.4 per cent in 2015. Look for average weekly earnings to grow 2.7 per cent this year and 3.0 per cent in 2015.

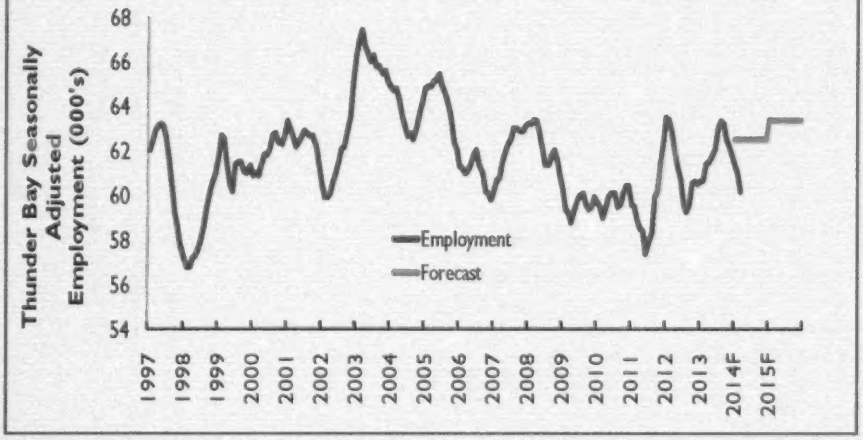
Thunder Bay's ability to house new households coming to the region for resource extraction of one type or another will depend on the magnitude of strength of goods producing employment. The recent employment weakness has been evident across all sectors. The goods-producing sector of the local economy has been trending down, although the vital services-producing sector has remained stable anchoring the local economy.

Migration into Thunder Bay will depend on Mining Readiness

For the past four years, in-migration to Thunder Bay has outstripped out-migration. This positive trend should continue for the near term. The start-up of four or five mining operations in Northwestern Ontario over the next two years will give real evidence of Thunder Bay's ability to supply housing options to mining households who will be looking to move closer to those establishing operations. The benefit that Thunder Bay will derive directly from mines establishing in the region will hinge on increasing supply in a tight resale market and arguably, a tight rental market. Expect migration to follow an improving trend for the forecast horizon.

Figure 4

Employment Growth In Thunder Bay To Rise Modestly



to March 2014, Forecast 2014 and 2015.
Source: Statistics Canada Labour Force Survey

Mortgage Rate Outlook

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

- Consistent with the view of Canadian economic forecasters, interest rates are forecast to register gradual and modest increases by the latter parts of the 2015 CMHC forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

- According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Mortgage rates		
1 Year	Q1 2014	3.14
	Change from Q1 2013	0.14
	2014 (F)	3.00 - 3.50
	2015 (F)	3.20 - 4.25
5 Year	Q1 2014	5.15
	Change from Q1 2013	-0.06
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q1 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Short term mortgage rates are expected to remain at historical low levels which will continue to support housing demand.
Employment	After peaking in September 2013, employment growth has been softening since, with service sector employment still buoying the Thunder Bay.
Income	Average weekly earnings in Thunder Bay are outpacing Ontario and Canadian wage gains due to relative labour tightness.
Population	Migration has been positive for four years running, a requirement for population gain given deaths outstripping births annually.
Resale Market	Seller's market conditions persist with low listings and reasonable demand being the key determinants.
Other	Forest products demand has improved while mining exploration and development has been hampered by weaker commodity prices.
New Home Market	Housing starts are expected to decline in 2014 but will edge higher in 2015.

Forecast Risks

This outlook is subject to some risks including:

- Canadians are still accumulating debt, albeit at a stable pace. Nonetheless, levels of household debt remain relatively high. With historically elevated house prices in some urban centres, these factors have made the Canada's economy more vulnerable to some economic shocks. For instance, if a sharp increase in interest rates or a large deterioration in employment were to occur, some of the more heavily indebted households could be forced to liquidate some of their assets, including their home. This could put downward pressure on house prices and, more generally, on housing market activity. Although this risk can arise in the shorter term, its impact would not be immediate on most indebted households because of the prevalence of fixed mortgage terms.
- The economies of China and other emerging-market countries remain vulnerable to tightening credit conditions and political uncertainty. This could affect the global economic recovery and world financial system. In turn, this could negatively impact demand for Canadian exports, contributing to a weakening of the Canadian economy and potentially lower demand for housing.
- A stronger than expected U.S. economic growth could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.

Forecast Summary Thunder Bay CMA Spring 2014	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	188	227	193	185	-4.1	200	8.1
Multiples	186	153	131	70	-46.6	90	28.6
Semi-Detached	8	6	4	10	150.0	10	0.0
Row/Townhouse	12	17	9	10	11.1	20	100.0
Apartments	166	130	118	120	1.7	80	-33.3
Starts - Total	374	380	324	255	-21.3	290	13.7
Average Price ($):							
Single-Detached	324,604	355,385	432,019	390,924	-9.5	410,470	5.0
Median Price ($):							
Single-Detached	312,000	329,900	429,900	379,385	-11.8	405,942	7.0
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	0.1	1.3	0.9	1.1	-	1.2	-
Resale Market							
MLS® Sales	1,373	1,367	1,357	1,340	-1.3	1,360	1.5
MLS® New Listings	1,677	1,631	1,634	1,600	-2.1	1,620	1.3
MLS® Average Price ($)	168,672	194,123	210,234	224,000	6.5	235,000	4.9
Rental Market							
October Vacancy Rate (%)	1.7	1.1	2.6	2.4	-0.2	2.2	-0.2
Two-bedroom Average Rent (October) ($)	772	818	858	875	2.0	890	1.7
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	59,500	61,000	62,200	62,000	-0.3	63,100	1.8
Employment Growth (%)	-0.5	2.5	2.0	-0.3	-	1.8	-
Unemployment rate (%)	6.9	5.4	6.0	6.4	-	6.3	-
Net Migration	169	280	89	300	**	350	16.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

** Percent change > 200%

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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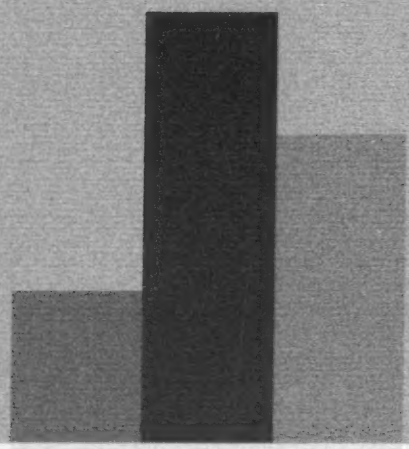

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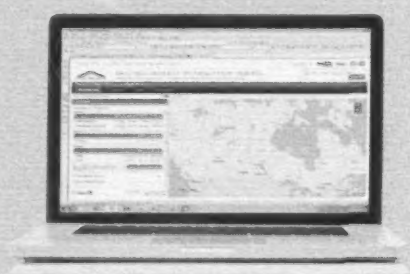

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